SYNOPSIS

NEW TRENDS IN FINANCING WORKING CAPITAL NEEDS IN SELECTED PHARMACEUTICAL COMPANIES

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Vishul Goyal

EnrollmentNo.: ***IIMTU/2167433*** *Registration No.:* ***2167007007***

Under the guidance of

Dr. Neeraj Gupta

(Assistant Professor, IIMT University, Meerut)

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CHAPTER I

INTRODUCTION AND EXECUTION OF THE STUDY

1.1 INTRODUCTION

In India, the trade and industry has initiated to advent more commercial operations through innovative trading practices. The tendency of one particular nation to dominate the global scene and the urge among smaller nations to unite in order to safeguard the interest, paved the way for new philosophy. The world has brought the policy of openness of globalizations to the forefront. India too adopted the restructuring and economic reform process in 1990. The economic policy gave emphasis to liberalization, globalisation and privatization of the Indian economy. Business institutions are expected to meet the requirements of several interested parties at national and international level. Hence, Indian corporate sector has to operate efficiently.

Working capital management, as a very important component of corporate finance, directly influences the liquidity and profitability of a concern. Breakdown of a company is unquestionable with its pitiable management or managing proficiency. Working capital management is the process of planning and controlling the level and mix of current assets of a firm as well as financing of these assets during the normal course of a business. In this process of planning and controlling the level and mix of current assets, the focus is placed on determining the optimum size and mix of various current assets and financing mix of current assets in such a way that neither the profit nor the liquidity is compromised. Thus, it follows that efficient and effective working capital management in terms of adequate size of working capital and adequate mix of financing of working capital plays an important role in maintaining the financial health of a business concern by maintaining the solvency, liquidity, profitability and goodwill of a business. Since, the management of current assets, current

liabilities and the interaction between them is the main theme of the theory of working capital management therefore; working capital should be managed such that it ensures higher profitability and proper liquidity to the business concern.

While managing for maximising the profit of the corporate entity, liquidity management becomes all the more important, for the management of working capital is identical to the management of a company's short term monetary liquidity and a poor liquidity position may ultimately render a serious threat of bankruptcy and economic failure to the business unit in addition to its management's restrain liberty for progress. The basic survival of the business may be at stake if adequate working capital is not available in time. Thus, working capital management is associated with the sustained survival of a company; not withstanding production of quality goods and services, use of efficacious selling techniques, employing of consummate technologies and proficient human resource management. Growing sales, dividend proclamation, extension of plant, adding fresh product line, increasing remuneration of workers, increasing the price level of a product, etc places an additional burden on working capital management. Especially in small firms, working capital management may be the decisive factor for success or failure; in large firms, efficient working capital management can significantly affect the firm's risk, return and share price.

Working capital management of pharmaceutical acted as a backbone of healthcare sector. For a corporate entity, engaged in manufacturing activity of medicine, the current assets usually account for a very high proportion of total assets. Therefore, for such a corporate entity, managing its current assets efficiently and effectively becomes even more crucial. Established body of knowledge suggests that excessive levels of current assets may result in some disguised and idle current assets which ultimately results into a substandard return on investment for the corporate entity. Similarly, corporate entities with too few current assets may face shortages and difficulties in carrying out business operations smoothly. Poor current assets hampering the smooth business operations are bound to result into erosion in profit. Likewise, if the financing of the current assets is not done prudently, the corporate entity is bound to suffer either excessive liquidity or poor liquidity. Both the situations are not favourable for any business unit. While excessive liquidity entails an avoidable burden on profits, poor liquidity leads to the threat of being bankrupt. Therefore, it is all the more necessary for a corporate entity to manage its working capital efficiently. In

this perspective, the present comparative study is undertaken to analyse the working capital management of the selected pharmaceutical industries in India.

1.2 LITERATURE REVIEW

A number of researchers have conducted research on the working capital and its various components. This is an overview of the research that has been carried out on the study. Some of the relevant articles have been studied in this research work. Comparative study on working capital management of the selected pharmaceutical units of India needs to carry out the following literature review:

Simranjeet Singh and Harwinder Kaur (2017)[1] have conducted a study on working capital management and Profitability of selected Steel Manufacturing Companies in India. Working Capital Management is one of the vital areas of management, and has a note worthy impact on the profitability of the company. The study is being concluded that working capital variables have significant impact on both the dependent variables, namely Net Profit and Return on Assets and also found a strong intensive negative relationship between the components of Working Capital Management including the number of days' accounts receivables, Cash Conversion Cycle with organizations profitability. But the researcher has not given much emphasis to the management of inventory which is very important aspect of working capital management.

Shivakumar and Dr. N. Babitha Thimmaiah (2016)[2] have emphasized a study on Working Capital Management and its impact on Liquidity and Profitability of Coal India Ltd. In this research correlation and Spearman's rank method has been applied to know the relationship between liquidity and profitability. By using these techniques, the authors have been concluded that the liquidity ratios are above the standard level which indicates better liquidity position and other turnover ratios have shown a satisfactory performance. The profitability indicators also shown growth trend. But In this research the author have not emphasized on the study of components of working capital.

Tanwar S. K. and Shah C. K. (2015)[3] have made an in-depth study of the inventory management of selected companies in India. Findings of the study shows that profitability analysis made significance in the context of overall performance of the firm. In the analytical frame work constructed for this purpose, the analyst should have both microscopic and macroscopic views of profitability. In the study the researcher

does not include much analysis on receivables management which is the basis for better management of cash flows.

Madhavi K. (2015)[4] makes an empirical study of the co-relation between liquidity position and profitability of the paper mills in Andhra Pradesh. The research concluded that inefficient working capital management makes a negative impact on liquidity position of the paper mills. But the researcher confined his study to only liquidity and profitability.

Joseph Jisha (2014)[5] conducted a study on working capital management in Ashok Leyland. Result of the study shows that the liquidity and profitability position of the company is not satisfactory, and needed to be strengthened in order to be able to meet its obligations in time. But this research is limited to only Ashok Leyland.

Akoto Richard K., Vitor Dadson A. and Angmor Peter L. (2013)[6] analysed the relationship between working capital policy and profitability of 13 listed manufacturing firms in Ghana. Profitability is significantly positively influenced by the firms cash conversion cycle (CCC), current assets ratio and current asset turnover. But the study does not showed the views of the executives regarding the management of working capital.

Singh Moirangthem B. and Singh Tejmani N. (2013)[7] emphasize on the efficient management of working capital. According to them it means proper management 26 of various components of working capital due to which adequate amount of working capital and liquidity is maintained in the larger interest for successful running of an enterprise.

Kaur Harsh V. and Singh Sukhdev (2013)[8] analyse empirically BSE 200 manufacturing companies spread over 19 industries for the period 2000 to 2010. The analysed the efficiency and profitability of 145 companies. It focused on cash conversion, working performance, efficiency and planning the operating cycle days. The research concluded that efficient management of working capital considerably affects effectiveness. The researcher has not taken the insights like inventory and cash management of the industry for the research work.

Kushalappa S.and Kunder Sharmila (2012)[9] closely studied the relationship between working capital management policies and profitability of the thirteen listed manufacturing firms in Ghana. At the end of the study, a significantly negative

relationship between profitability and accounts receivable days is found to exist. Profitability is significantly positively influenced by the firm's cash conversion cycle (CCC), current assets ratio and current asset turnover. It is also suggested that managers can create value for the shareholders by creating incentives to reduce their accounts receivable to 30 days. Even the study stressed the relationship between working capital management policies and profitability of the thirteen listed manufacturing firms in Ghana, It has not focused on the trends in working capital management.

Ray Sarbapriya (2012)[10] studies the relationship between liquidity and profitability in the manufacturing industry. The sample size of 311 manufacturing firms was taken for 14 years, and studied the effect of factors determining working capital management. The study concluded that there is a strong relationship between factors affecting working capital management and corporate profitability. In the end insignificant negative relationship between firm size and its net operating profit ratio was detected. But this empirical study stressed on only liquidity aspect.

Ding Sai, Guariglia Alessandra and Knight John (2012)[11] have used a panel of over 1,16,000 Chinese firms of different ownership types over the period 2000 to 2007 to analyze the relation between working capital and financial constraints. It was observed that those firms characterized by high working capital, display high sensitivities of investment in working capital to cash flow and low sensitivities of investment in fixed capital to cash flow. The study found that despite severe external financing constraints, those firms with low FKS and high WKS exhibited the highest fixed investment rates. But the study was limited to working capital financing constraints.

Song Zhen, Liu Duan and Chen Shou (2012)[12] study the two aspects - turnover capacity and liquidity, and have analyzed the effects of working capital on engineering product market completion performance in the manufacture industry. The study discovers that enterprise working capital turnover ability has positive effect on product market competition performance while enterprise working capital liquidity has a negative relationship with market competition performance. But according to regression equation to predict the competition effects of working capital, exists larger error because the actual impact of working capital on competition performance may be non-linear so the authors have used B P Neural Network Model to predict the competition

performance and the results show that the overall prediction effect is good. But the study focused on only working capital turnover.

Nakamura Palombini Nathalle Vicente and Nakamura Wilson Toshiro (2012)[13] focus on the key factors of working capital management by exploring the internal variables of a number of companies. 2976 Brazilian Public Companies data from 2001 to 2008 were used for the study. And it was found that debt level, size in growth rate could affect the working capital management of the companies. The study aimed at contributing to the understanding of the short-term financial decisions by investigating the key factors of working capital management. At the end of the study, it was found that companies with a high level of working capital were consistent with previous studies (CHIOU, CHENG and WU, 2006; NAZIR and AFZA, 2008). These findings corroborate the Pecking Order Theory and suggest that as companies increase their financial leverage, they tend to assume a more restrictive policy in working capital management. But in this research the researcher has not examined the efficiency parameter of working capital.

Bei Zhao and Wijewardana W. P. (2012)[14] examine the working capital policy (WCP) practices in Srilankan context. Multiple regression analysis is applied to measure the firm's efficiency and limiting factors for the growth of a firm. If the direction of working capital management (WCM) is not understood, the investment of more resource into an area leads to worse performance. But In this study, the author left the concept of inventory management.

Chandra H. and Selvaraj A. (2012)[15] analysed the working capital management of selected Steel Companies in India for the period from 2000-01 to 2009-10. Operating and cash conversion cycle were used to analyse the efficacy of firm. Kieschnick model was used to measure the determinants of cash conversion cycle. The study determined that working capital plays a vital for the functioning of small, medium and large scale industry. But this study is related to only selected steel companies in India.

1.2.1. RESEARCH GAP IDENTIFICATION

After reviewing the literature of the various researches, publications as well as reports, the researcher identified the following deficiencies:

- The majority of the researchers either concentrated on single component of working capital or influencing factors of working capital, but no one examined all the main sources of working capital.

- Some authors emphasized working capital relating to manufacturing industry, coal industry, steel industry, etc. But no one attempted the working capital analysis in pharmaceutical industry.

- The researchers peripherally confined to the funds flow statement but no one done macro, micro financial analysis. No researcher has done on comparative study of working capital analysis related to pharmaceutical industry. Based on this research gap the researcher has taken this work.

1.3. STATEMENT OF THE PROBLEM

The Indian pharmaceutical industry raked as 14th place in the world for its valuable supply of pharmaceutical products. With a well-established domestic manufacturing base and low-cost skilled manpower, India is emerging as a global hub for pharmaceutical products and the industry continues to be on a growth trajectory. The Indian Pharmaceutical Industry currently heads the list among India's science based industries with wide ranging capabilities in the complex field of drug manufacturing and technology. It holds the distinction of being a highly organized sector, and is estimated to be worth 36.7 billion (dollars). In terms of technology, quality and the range of medicines that are manufactured, it ranks very high among all the countries. The last two decades have seen wide expansion of this industry. In fact, the Indian pharmaceutical sector is highly fragmented with more than 20,000 units. Besides, the Pharmaceutical and Chemical industry in India is an extremely fragmented market with severe price competition and government price control. The Pharmaceutical industry in India meets around 70% of the country's demand for bulk drugs, drug intermediates, pharmaceutical formulations, chemicals, capsules, tablets and

injections. Considered to be a highly fragmented industry, consolidation has increasingly become an important feature of the Indian pharmaceutical market.

An intent of building a strong base on the function of pharmaceutical industry is achieved by analysing various factors involved in the working capital management. Since the pharmaceutical industry is characterized by high capital intensity, high dependence on bulk raw materials, and cyclical growth trends, therefore, the industry is always exposed to and vulnerable to threat of overcapacity and relatively low profitability when cyclical movements are adverse. This is the reason why the problems associated with the pharmaceutical industry are generally complex given their criticality to nation building. Owing to these perpetual threats and challenges associated with the pharmaceutical industries and keeping in view the size of investment in working capital of this industry, it would be quintessential to analyse the management of working capital so as to know about its level of operational efficiency and also to utilize the maximum available resource to increase the rate of return on investments. It is in this context the present study has been undertaken to analyze the working capital management of Indian pharmaceutical industry.

1.3.1. SCOPE OF THE STUDY

The research study presents a growth and developments of pharmaceutical industry with the selected top NSE/BSE rated pharmaceutical companies in India. The present research study is micro level study since it is not possible for the researcher to conduct it on the macro level. The scope for this study is so wide. But in this study researcher has taken some parameters in relation to the working capital management. The study is mainly intended to concentrate on the issues relating to impact of working capital on profitability though there are several other problems which are responsible to impact on profitability.

1.3.2. OBJECTIVES OF THE STUDY

The objectives of the research work are given below:

The very basic purpose of the study is to analyse the management of working capital of selected pharmaceutical companies with a view to better understand the overall operational efficiency in terms of three crucially important issues: (i) the issue of adequacy, (ii) the

issue of liquidity, and (iii) the issue of profitability. In keeping with the very basic purpose of the study, the objectives are enumerated as follows

1. To make an appraisal of the growth of the Indian pharmaceutical Industry in the recent past in the wake of threats and challenges being faced by the industry

2. To analyse and assess the cash position and its management in the selected pharmaceutical companies.

3. To analyse and assess the management of receivables in the selected pharmaceutical companies.

4. To analyse and assess the inventory management practices of the selected pharmaceutical companies.

5. To analyse the overall adequacy and financing-mix of the working capital with a view to decipher the impact of the same on the liquidity position and profitability of the selected pharmaceutical companies.

1.4 HYPOTHESES

This research work is formulated on the basis of the above objectives. In order to have an overall picture over the years as also to have a comparative picture of working capital management of selected pharmaceutical companies, the study has formulated and tested the following hypotheses:

1. Hypotheses Pertaining to Cash Management:

H01: There is no significant difference amongst selected companies in terms of their Cash Turnover Ratios.

H02: There is no significant difference during the study period (year wise) in Cash Turnover Ratios of the selected companies.

2. Hypotheses Pertaining to Receivables Management:

H01: There is no significant difference amongst selected companies in terms of their Receivables Turnover Ratios.

H02: There is no significant difference during the study period (year wise) in Receivables Turnover Ratios of the selected companies.

3. Hypotheses Pertaining to Inventory Management:

H01: There is no significant difference amongst selected companies in terms of their Inventory Turnover Ratios

H02: There is no significant difference during the study period (year wise) in Inventory Turnover Ratios of the selected companies.

4. Hypotheses Pertaining to Working Capital Management:

H01: There is no significant difference amongst selected companies in terms of their Working Capital Turnover Ratios.

H02: There is no significant difference during the study period (year wise) in Working Capital Turnover Ratios of the selected companies.

1.5 METHODOLOGY

The present study is based on analytical and exploratory in nature. The study enlightens the working capital position of the pharmaceutical companies in descriptive manner and it is based on secondary data. This research has made an attempt to show the working capital management of the selected pharmaceutical industries and to know about the growth and developments of the pharmaceutical industries.

1.5.1. Sampling Design

Researcher selects only a small amount of bits and pieces from the universe for the purpose of the study on the basis of stratified sampling. The sample so selected constitutes the sample design for the purpose. In this study, the population of pharmaceutical industry is divided into three strata, based on the companies' profitability. Large scale, medium scale and small scale are the three strata considered. From the strata of large-scale companies, it is decided to include ten selected pharmaceutical companies in India out of top 100 companies as per Market Capitalization, which are listed on BSE or/and NSE. The selected companies are as under,

1. Aurobindo Pharmaceuticals Ltd.
2. Sun Pharma
3. Divis Labs
4. Biocon Ltd
5. Cadila Healthcare Ltd.

6. Cipla Ltd.
7. Torrent Pharma
8. Dr. Reddy's Laboratories Ltd.
9. Glenmark Pharmaceuticals Ltd.
10. Lupin Ltd

1.5.2. Period of the Study

The research work has taken effort to analyze the comparative study on working capital management of pharmaceutical industries from the year 2014-2015 to 2023-2024. The present study covers period of ten years of pharmaceutical industries and the study has been started from the financial year of 1st April 2014 to 31st March 2024. It provides detailed information about growth of pharmaceutical industries and recent developments in India during recession period.

1.5.3. Source of Data

This study will collect the secondary data like profit and loss statement, balance sheet from the annual reports of pharmaceutical companies and other reports relating to the issues under the present study. Secondary data collection method is applied in this research study. The main sources of data for the study are the journals, the annual reports and the web sites of selected companies. In addition to this the information published by the selected companies and the published literature available in the form of books, magazines, journal and articles is used to complete relevant data for the purpose of the study.

1.5.4. Tools Used in the Study

In keeping with the objectives of the study, we will work out and analyse the accounting ratios relevant to working capital management. Apart from this, we'll use statistical tools and techniques as warranted by the data and objectives of the study. The important statistical tools will be used for the purpose of analysis include the Trend Analysis, Standard Deviations, Mean, Coefficient of Variation, Chi Square Test, Regression Analysis, MOTAAL"s Comprehensive Test of Liquidity, and Analysis of Variance

(ANOVA). The uses of all these techniques at different places have been made in the light of nature and suitability of data and the requirements of analysis.

1.6. LIMITATIONS OF THE STUDY

The present study contains some limitations are given below:

1. The study is based on secondary data mostly taken from published annual reports of the aforesaid companies and as such its finding depends entirely on the accuracy of such data.

2. The financial statements of a business concern give only the skeletal view of the organization. The study thus suffers with the limitation of having no access to some relevant and meaningful internal data. Availability of such data would otherwise have made the study more meaningful.

3. The Pharmaceutical industry is huddled with several types of players which present such a diverse milieu that cannot be reasonably compared for discerning any meaningful information. As such, in total five prominent companies qualified for and finally selected. As such, findings and inferences reflect the practices of the prominent players only and not of the industry as a whole.

4. To make the study on working capital management more fruitful, it is necessary that the data should be of frequent time intervals. But, such type of weekly or monthly data, which was tried collecting for, could not be obtained and as such the study is based only on the annual data published by the companies.

1.7. CONCLUSION

Pharmaceutical industry in India ranks very high in terms of technology, quality and range of medicines manufactured. Many different medicines varieties are now made domestically by Indian industries. In the present day context of rising capital cost and scars funds, the importance of working capital needs special emphasis. It has been widely accepted that the profitability of a business concern likely depends upon the manner in which working capital is managed. On the other hand, proper management of working capital leads to a material savings and ensures financial returns at the optimum level even on the minimum level of capital employed. Both excessive and inadequate working capital is harmful of a firm. There are many instances of a business failure for inadequate working capital. Further

working capital has to play a vital role to keep pace with the scientific and technological developments that are taking place in the concerned area of pharmaceutical industry. Inventory and debtors are the major components of working capital in terms of value of the pharmaceutical companies in India. Under the circumstances, if new ideas, methods and techniques are not been injected or brought into practice for want of working capital, the companies certainly not able to face competition and survive. In this context working capital management has a special relevance and a thorough investigation regarding working capital practice in the pharmaceutical industry is of utmost importance. An attempt has therefore been made to undertake an in-depth study on working capital management of selected pharmaceutical companies in India.

1.8 TENTATIVE CHAPTER SCHEME

Chapter I - Introduction to the study

The first chapter will explain about the introduction of the present study. It includes introduction about working capital analysis, history of pharmaceutical industry, statement of the problem, objectives of the study, scope of the study, limitations and chapter scheme.

Chapter II - Review of Literature

The second chapter will present that the review of previous studies related to working capital analysis of pharmaceutical companies and other industry related studies.

Chapter III - Research Methodology

The third chapter will describe the research methodology and statistical tools used in this research.

Chapter IV - Data Analysis and Interpretation

The fourth chapter will deal with the analysis of working capital management of selected pharmaceutical companies in India.

Chapter V - Findings, Suggestions and Conclusion

The fifth and last chapter will present that the summary of findings, recommendations to the selected pharmaceutical companies to improve the working capital management, conclusion and scope for further research.

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